

Illinois State Treasurer  
Securities Lending Bidder's Conference  
August 27, 2007  
Questions and Answers

**Question:** Can the bidder lend securities in a custodial capacity only? This would mean the bidder would not be lending securities in a non-custodial capacity.

**Response:** YES but "custodial only" must be clearly defined in the bidder's response to the RFP.

**Question:** Do the confidentiality and security requirements on page 13, #7 of the RFP include SEC requirements on disclosure with respect to exposure?

**Response:** To the extent that any information covered by the SEC requirement in question is relevant to the financial condition of the bidder/contractor and/or its securities lending program, it is quite possible that it may be required for disclosure to the State Treasurer therefore become public information.

**Question:** On page 3, #10 of the RFP the question refers to "blind brokerage", what is "blind brokerage"?

**Response:** Comptroller of the Currency Banking Circular 196 defines "blind brokerage" as follows: Undisclosed agency transactions, i.e. transactions in which participants cannot determine the identity of the counterparty. These transactions are treated as if the lender/agent institution were the principal.

**Comment from Conference Participant:** The agent lender notifies potential broker-dealer borrowers regularly of the securities available to be borrowed through its securities loan program. The agent lender pools identical securities held for different customers such that the notice identifies the particular security and quantity available (the aggregate across customer lenders) but not the customer or customers who own the securities. If a broker-dealer borrower wants to obtain a loan, it notifies the agent lender of the security and quantity. The agent lender and broker-dealer borrower negotiate the lending rate and collateral to be applied to the loan. If more than one of the agent lender's customers has made the security available, the agent lender generally fulfills the loan request through a queue and allocation method recommended by the U.S. Department of Labor. The broker-dealer borrower typically records the loan transaction in an account in the name of the agent lender.

Under the Agency Lending Disclosure Initiative, the agent lender will provide a broker-dealer borrower at the end of the day or by the next business day with information as to the identities of the agent lender's customers whose securities are being loaned to the borrower. Access to the information will generally be limited to personnel at the broker-dealer borrower responsible for credit risk management and regulatory capital reporting and will be used to assist them in meeting these responsibilities."

**Question:** On page 8, #3C, should the reference to Section F read Section 7?

**Response:** Yes.

**Question:** With regard to the reinvestment of collateral, will floating rate securities be allowed? What is the State Treasurer's Office position regarding a matched versus unmatched cash collateral portfolio?

**Response:** The State Treasurer's Office in the process of finalizing a Securities Lending Investment Policy. With the understanding that the use of floating rate securities and some mismatching of a cash collateral pool is highly desirable to enable enhanced return, the final determination regarding usage of floating rate securities and mismatching will be clearly stated in the final, approved version of this policy.

**Question:** On page 6, #5 under Systems, Technology and Recordkeeping, can the State Treasurer's Office indicate which GASB rules are applicable?

**Response:** The Treasurer's Office is required to comply with GASB 28, 34, 40 and 41 related to Securities Lending. The proposer would be required to provide sufficient information for the Treasurer to meet these GASB requirements.

**Question:** Are all securities subject to lending in this RFP in an account at the Federal Reserve?

**Response:** Yes. All securities related to the RFP are in a custody account at the Federal Reserve in the name of the State Treasurer of Illinois.

**Question:** Are the fee's charged for the State Treasurer's account at the Federal Reserve public information?

**Response:** Yes. In FY 2007 (July 2006 through June 2007), the Treasurer's fees for its account at the Federal Reserve were approximately \$400. The fee to transfer a security into the FRB account is \$.32 and the fee to hold the asset at the end of month is \$.40.

**Question:** Are there any other fees that will be associated with the securities lending program other than those paid to the Federal Reserve?

**Response:** No. The Treasurer pays a separate annual fee to its custodian, Wells Fargo.

**Question:** There are three sets of documents required for response to the RFP: (1) The Proposal, (2) Pricing and, (3) Ethics Response to the Inspector General for the State Treasurer?

**Response:** Yes. The proposal (1) and Pricing (2) should be sent to the name and address as indicated in the RFP. The Ethics Response (3) must be sent to:

Illinois State Treasurer's Office  
Attention: Mr. David Wells, Inspector General  
300 West Jefferson Street  
Springfield, Illinois 62702